

# *Allied Stores Corporation 1984 Annual Report*



## *The Company*

Allied Stores Corporation is one of America's largest retailing organizations, operating 597 stores located in 45 states, the District of Columbia and Japan, with a total of 36,945,000 square feet of gross store space. Total sales during the year ended February 2, 1985 were \$4 billion.

The store divisions, a listing of which appears on page 27, form a dynamic and diverse retailing network. The 21 department store divisions, stretching from New England to Texas, from the Atlantic to the Pacific, are steeped in the history and traditions of their respective communities. The 6 specialty store divisions, several of which are fashion trend-setters in high-quality apparel, have for the most part a more national character. Allied operates 7 regional shopping centers, 5 of which are owned, in the states of Washington, Massachusetts and New Jersey.

The retailing operations are supported by four important subsidiaries of the Corporation.

Allied Stores Marketing Corp. and Allied Stores International, Inc. provide merchandising research and information and act as merchandising consultants to the stores. Specialized staffs in the New York central office provide support in the areas of finance, taxes, insurance, electronic data processing, real estate and store construction, and lend guidance to the stores in such areas as accounting systems and methods, sales promotion, consumer credit, personnel, and legal and governmental affairs.

Allstores Realty Corporation owns a substantial percentage of the properties occupied by the stores.

Allied Stores Credit Corporation purchases revolving credit and instalment accounts from the merchandising divisions and obtains short-term financing through the issuance of commercial paper and the use of bank lines.

## *Contents*

|    |                                                                       |
|----|-----------------------------------------------------------------------|
| 1  | Financial Highlights                                                  |
| 2  | To Our Stockholders                                                   |
| 4  | Customers are our Most Important and Valuable Asset                   |
| 14 | Management's Discussion and Financial Review                          |
| 16 | Quarterly Financial Information                                       |
| 17 | Consolidated Financial Statements                                     |
| 25 | Management's Report                                                   |
| 25 | Accountants' Report                                                   |
| 26 | Condensed Financial Statements of Credit and Real Estate Subsidiaries |
| 27 | The Allied Stores Divisions                                           |
| 28 | Directors and Officers                                                |
| 29 | General Stockholder Information                                       |

# Financial Highlights

Allied Stores Corporation  
and Subsidiaries

Dollars in millions except per share amounts 1984 1983 1982 1981 1980

## Operating Results

|              |         |         |         |         |         |
|--------------|---------|---------|---------|---------|---------|
| Net sales    | \$3,970 | \$3,676 | \$3,216 | \$2,733 | \$2,268 |
| Net earnings | 141     | 128     | 91      | 88      | 83      |

## Per Share of Common Stock

|                            |         |         |         |         |         |
|----------------------------|---------|---------|---------|---------|---------|
| Net earnings—primary       | \$ 6.71 | \$ 6.15 | \$ 4.41 | \$ 4.38 | \$ 4.08 |
| Net earnings—fully diluted | 5.98    | 5.61    | 4.33    | 4.35    | 4.05    |
| Dividends paid             | 2.00    | 1.85    | 1.80    | 1.75    | 1.70    |
| Equity at year end         | 50.71   | 46.00   | 41.68   | 39.45   | 36.89   |

## Financial Position

|                          |        |        |        |        |        |
|--------------------------|--------|--------|--------|--------|--------|
| Working capital          | \$ 884 | \$ 770 | \$ 718 | \$ 476 | \$ 571 |
| Total assets             | 2,676  | 2,530  | 2,283  | 2,179  | 1,620  |
| Short-term notes payable | 65     | 99     | 33     | 230    | —      |
| Long-term debt           | 753    | 756    | 791    | 605    | 458    |
| Stockholders' equity     | 1,063  | 964    | 868    | 798    | 743    |

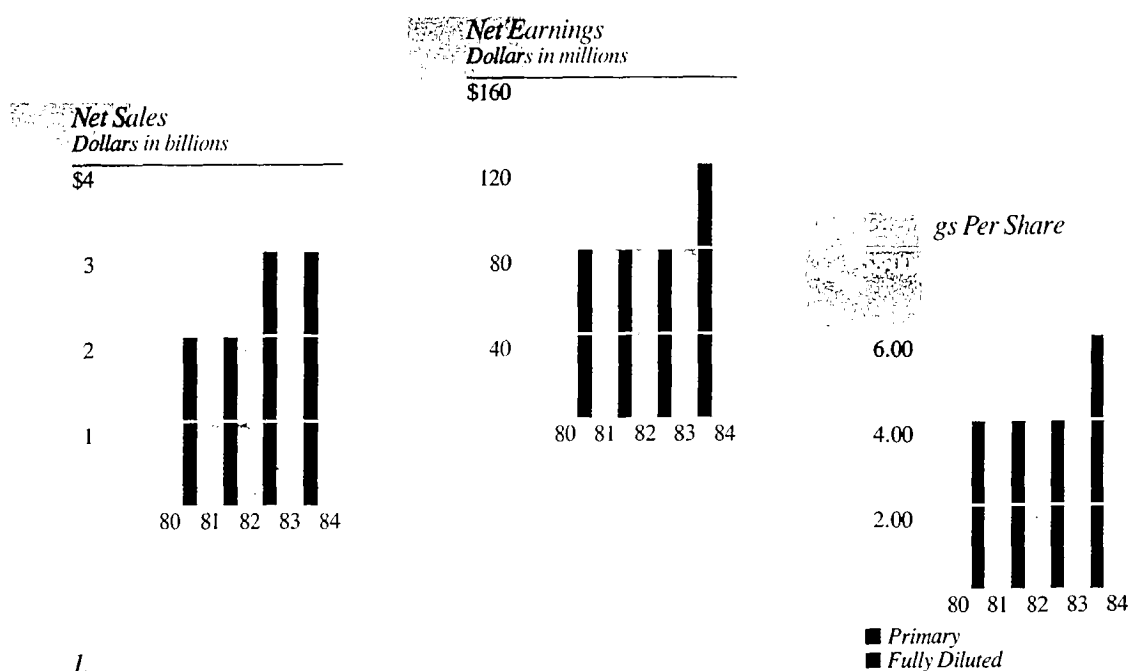
## Ratios

|                                |       |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|-------|
| Net earnings to net sales      | 3.54% | 3.49% | 2.82% | 3.23% | 3.68% |
| Return on stockholders' equity |       |       |       |       |       |
| at beginning of year           | 14.6% | 14.8% | 11.4% | 11.9% | 11.9% |
| Capitalization                 |       |       |       |       |       |
| Long-term debt                 | 41.5% | 44.0% | 47.7% | 43.1% | 38.1% |
| Stockholders' equity           | 58.5% | 56.0% | 52.3% | 56.9% | 61.9% |

## Stores

|                                |        |        |        |        |        |
|--------------------------------|--------|--------|--------|--------|--------|
| Number at year end             | 597    | 570    | 533    | 512    | 226    |
| Gross square feet in thousands | 36,945 | 37,102 | 36,386 | 36,291 | 29,692 |

Includes results of Garfinckel, Brooks Brothers, Miller & Rhoads, Inc. since acquisition during September 1981.



1.



In a year during which the retail industry experienced an extremely competitive and promotional environment, Allied Stores Corporation was able to achieve new records in both sales and earnings.

Sales for the 53-week 1984 fiscal year were \$4.0 billion, an increase of 8.0% from the \$3.7 billion in the 52-week 1983 year. On a comparable store basis, the gain was 6.1%. The sales increase in 1984 on an equivalent 52-week year would have been 6.9%. Net earnings amounted to \$140.7 million, compared with \$128.5 million earned a year ago, and primary earnings per share were equal to \$6.71 versus \$6.15 in 1983. On a fully diluted basis, earnings per share were \$5.98 and \$5.61 in the respective years. Net earnings in 1984 included a capital gain realized from the sale of real estate equal to \$0.29 per share on a primary basis.

The improvement in earnings is being shared with our stockholders as the Board of Directors in February 1985 increased the dividend

to an annual rate of \$2.12 per share. The first quarterly payment at this new rate was made in April 1985. This dividend increase, our 13th since 1975, reflects our continued policy of raising our dividend as earnings grow.

A slowdown in consumer spending which started in the Spring of the year created a highly competitive climate for retailing. Throughout the industry, excessive inventories became a problem and it became necessary to step up the level of promotional activity and markdowns to reduce heavy inventory positions at a time of weakening consumer demand. This exerted considerable pressure on our gross margins. Your management reacted quickly to this problem. Our disciplined approach to cost control enabled us to pare expenses and bring inventories into line with our sales plan.

While 1984 will not be remembered as one of the better years for retailing, a difficult year such as this reinforces management's commitment to our Game Plan. There are a number of elements to our Game Plan. We will continue to focus our efforts on providing our customers with the finest in fashion merchandise available in world markets and with quality service in our stores. Responding to what is happening in today's marketplace, we are developing stronger merchandise presentations in our upper moderate and better apparel classifications and upgrading our home furnishings business. We will continue our program of eliminating those stores which are unprofitable or producing an unsatisfactory return. Your management remains totally committed to our disciplined cost and inventory control program. The sound management techniques

inherent in our Game Plan enabled your Company to move forward in 1984.

We continued to add to our store base in 1984, opening four new department stores. They are Bon stores in Bellevue, Washington and Idaho Falls, Idaho, the latter a replacement unit; a Jordan Marsh store in Waterford, Connecticut; and a Miller's store in Knoxville, Tennessee. Also opened were two Brooks Brothers stores, nine Ann Taylors, 23 Catherine's and Plus-Size stores and three Plymouth Shops. We closed our small and unprofitable Troutman's and Harzfeld's divisions in 1984 and absorbed the two stores of our Wren's division in Springfield, Ohio into our Block's division. Of the 14 Troutman and Harzfeld locations, four were retained—two Troutman's were reopened as Pomeroy's stores and Harzfeld's Country Club Plaza unit in Kansas City, Missouri became a Bonwit Teller in the 1984 year, while the Harzfeld unit in Tulsa, Oklahoma was reopened as a Brooks Brothers in March 1985. In addition to the divisions we eliminated, we also closed a Pomeroy's store in Lebanon, Pennsylvania, a Catherine's and a Plymouth Shop. On a net basis, there was a reduction of 157,000 square feet of space in 1984.

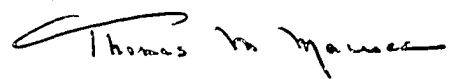
Plans for 1985 call for the opening of six new department stores—a Bon in Silverdale, Washington; a Herp's in Grand Rapids, Michigan; Jordan Marsh stores in Albany, New York and Coral Springs, Florida; a Miller & Rhoads in Roanoke, Virginia; and a Pomeroy's in Pottstown, Pennsylvania. The Pomeroy's and Herp's stores will be replacing large, outdated units. In addition to the department stores, two Brooks Brothers, 12 Ann Taylors, 16 Catherine's and

Plus-Size stores and two Plymouth Shops are planned. While there will be a net addition of only 74,000 square feet of space in 1985 because of the closing of the large Pomeroy's and Herp's stores, the new stores will add 707,000 square feet of highly productive space.

Your management is concerned with the intensified level of promotional activity in the retail industry. We believe, however, that with inventory positions throughout the industry more in line with planned sales than was the case a year ago, promotional pressures should ease somewhat during 1985. There is growing confidence that the upward trend in the economy will continue in 1985 and that the pace of consumer spending will quicken as the year progresses. Well positioned in both department store and specialty store retailing, Allied looks forward to another strong year in 1985.

Despite the very difficult retailing environment that prevailed through much of the year, your Company was able to report record sales and earnings for 1984. This would not have been possible without the dedication of our employees, the patronage and loyalty of our customers, the cooperation of our vendors and the wise guidance of our Board of Directors. We have every confidence that the strategic programs your management is committed to will result in continued growth in sales and profits for Allied in the years ahead.

Respectfully submitted,



President and Chief Executive Officer

April 23, 1985

*Customers are our  
Most Important  
and Valuable Asset*



*We have created specialty petite boutiques where all merchandise is designed for the special-size customer.*



*Customers will shop in stores where service quality is equal to merchandise quality and where customer service is on a personal basis.*

*Our accessory departments are specially merchandised to meet the needs of the business woman.*



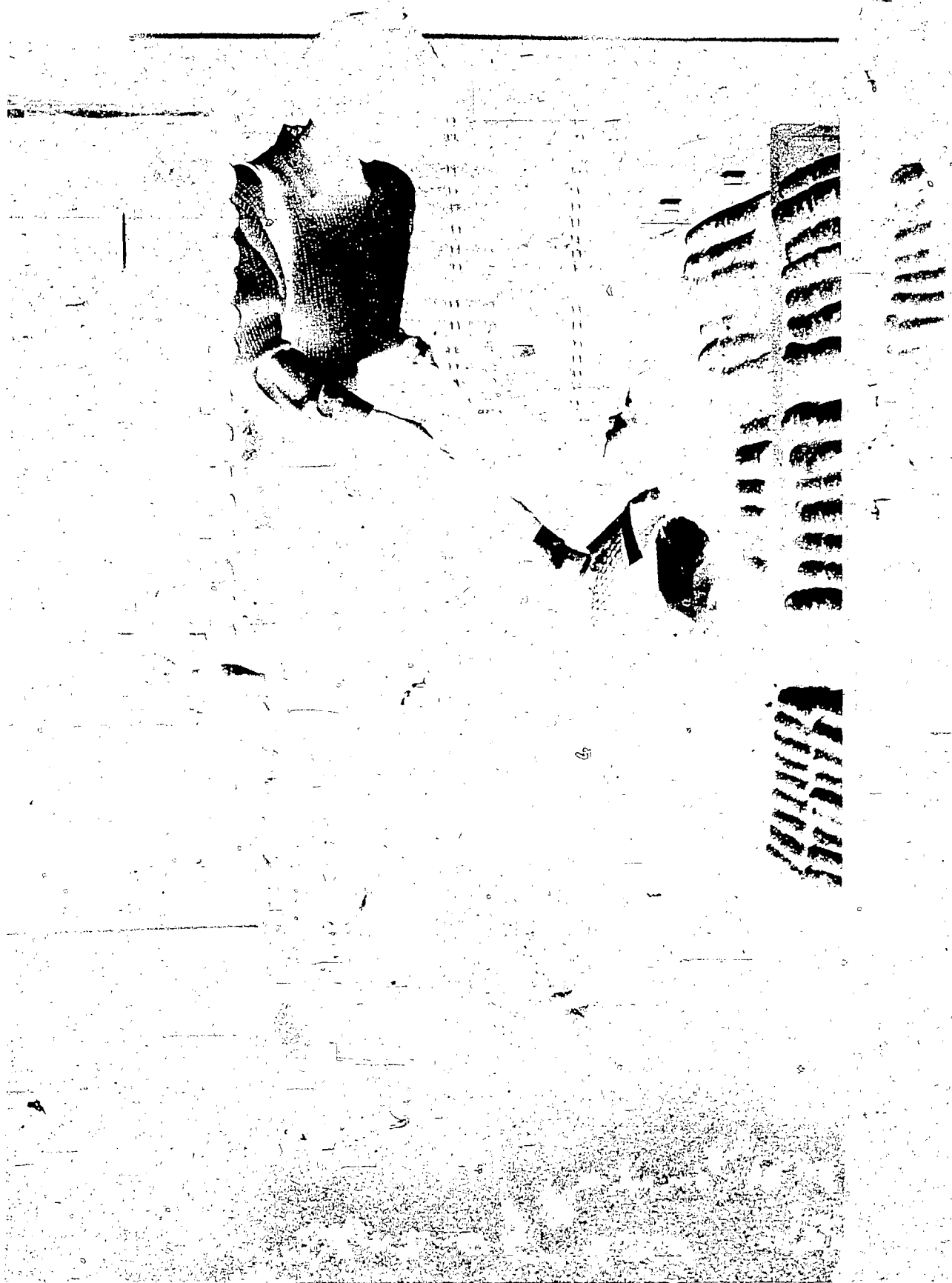
United Stores Corporation has prospered over the years by focusing its efforts on meeting the needs of its customers. This requires a commitment to pursue a fashion direction that is dictated by our customers and a dedication to provide the best possible service in our stores.

Your Company is responsive to what is happening in today's marketplace. We as merchants listen to our customers. Our research studies have time and again indicated that the

patronage and loyalty of our customers is earned by providing the finest in fashion merchandise available in world markets, by consistently offering good value in the pricing of our merchandise and by a total commitment to customer service.

As a result, focus on the customer has become central to the management of your Company and its 21 department and six specialty store divisions.

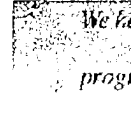




*Our men's own-brand programs are important for Brooks Brothers and in department stores where our exclusive Carl Michaels program has been well received*



*We have own-brand programs that run from Bebe infants apparel through Kids Exchange children's wear.*



*Working closely with leading domestic mills, we have developed exclusive patterns in toweling in a wide color spectrum.*



Each of our divisions has identified its particular market niche and has custom-tailored its merchandise direction and shopper services to zero in on a targeted customer base.

Merchandise assortments are skillfully developed. For our department stores, the mix must be a careful balance among the current most important designer and signature labels, national brands and exclusive private label merchandise. While the designer and national brands

have traditionally been and, to a large extent, still are the core of our merchandise presentations, there has been an intensification in the use of private label goods in virtually all merchandise classifications. Their unique identity and exclusivity have enabled our stores to establish an identity in the marketplace that is distinct from our competition.

*Fashion tastes change as our customers grow older but style doesn't. Our customers*

*expect to find a consistent approach to fashion throughout the store.*

*Our computerized Bridal Gift Registries provide a personal touch for the bride-to-be and are designed to establish her as a loyal store customer.*

*Our merchants shop world markets to present in our stores a collection of fine decorative accessories.*

roviding quality and value is the primary objective of our own-brand programs,

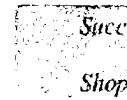
both in our department and specialty store divisions, because our customers rely on our stores to provide quality products. Ann Taylor, a leader in fashion-forward contemporary clothing and accessories for women, has been particularly successful in using private label programs to develop customer loyalty to its stores and its exclusive merchandise.

But our focus on the customer goes beyond providing good-quality fashion merchandise at fair realistic prices. Shoppers want more than that. They want quality service. The most important part of the customer service programs in our stores is having well-trained sales people on the floor who are knowledgeable about the products they are selling and who are attentive to their customers' needs.





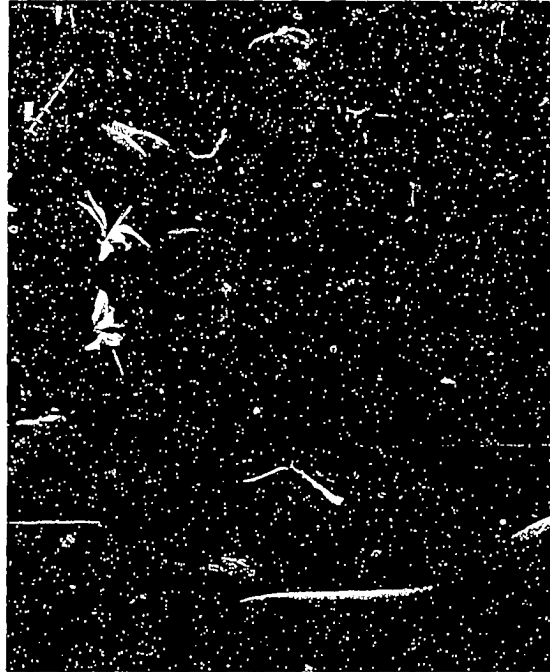
*A well-trained, helpful sales person can make the difference when similar merchandise is available in many stores.*



*Success of our Personal Shopper Program depends*

*on having the right person working with our customers. She must have a combination of fashion awareness and selling expertise.*

*Through its special approach to contemporary merchandise, much of it designed in-house, Ann Taylor is a trend-setter in fashion.*



*In meeting our customers' service needs, we have also directed our efforts to the ever-shifting priorities of our shoppers. This has resulted in a whole range of more specialized customer services. Recognizing the busy schedules of working women with careers and families, many of our stores have developed successful and growing Personal Shopper Programs. Our personal shoppers are trained to handle all the shopping needs of our customers, an attrac-*

*tive service for women who have a limited amount of time to shop. Customer response has been most positive where weekend, evening and early morning home furnishings delivery is offered, a service responsive to the needs of the growing number of two-career households. These are but two examples of the many special services our stores have developed to better serve their customers.*

*11.*



*We must never lose a sale because a customer couldn't find a basic item in her size or in the desired color.*



*Exciting shopping environments are created for our customers to highlight the newest fashion directions.*

*The Brooks Brothers name represents the very best in merchandise workmanship and in customer service.*



At Brooks Brothers, a Special Order Department serves customers who are looking for a broader selection of fabric or more individualized detailing in their clothing or who have special fitting requirements. Here suits and shirts are cut to individual measurements and to meet customers' personal style needs.

Our total effort – in merchandising our stores and in the service aspect of our business – is to meet the needs of our customers. Creating

an imaginative distinction between our products and services and what other retailers offer, based on what our customers are looking for when they shop, has led us to increase our emphasis on private label merchandise and on customer service. These programs help give us a competitive edge that will increase sales, improve our profits and assure our stockholders a proper return on their investment.



### *Operating Results*

Net sales for the 53-week fiscal year ended February 2, 1985 increased 8.0% to \$3.97 billion from the \$3.68 billion in the 52-week fiscal year ended January 28, 1984. On a comparable store basis, the 1984 sales increase was 6.1%. The 1984 year had one additional week which increased the rate of sales gain. On an equivalent 52-week basis, the 1984 sales gain would have been 6.9%. Sales in 1983 were 14.3% higher than the \$3.22 billion of net sales during 1982, with comparable store sales up 11.4%. Included in the reported sales of the Corporation are the sales of leased departments, amounting to \$301 million in 1984 and \$276 and \$238 million in 1983 and 1982, respectively.

The 1984 year was a difficult one for retailers. Consumer spending, which was very strong during 1983, began to slow down during the Spring of 1984. Throughout the industry, excessive inventories became a problem. An increase in the level of markdowns and promotional activity was the result as retailers began to lower their inventories to more acceptable levels.

The Corporation achieved record net earnings of \$140.7 million in 1984, an increase of 9.5% over the \$128.5 million earned in 1983. The 1983 net earnings represented a 41.7% increase over the \$90.7 million earned in 1982. Net earnings as a percent of net sales increased to 3.54% in 1984 from 3.49% in 1983 and 2.82% in 1982. Net earnings in 1984 included a \$6.0 million capital gain realized from the sale of real estate, and 1982 net earnings included a

\$3.6 million non-taxable gain realized through an exchange of stock for debt. Excluding these non-recurring transactions, net earnings in 1984 and 1983 increased 4.9% and 47.6%, respectively.

Cost of goods sold, including buying and occupancy costs, were 68.0% of sales in 1984, compared with 67.7% and 68.7% in 1983 and 1982, respectively. The previously mentioned increase in the level of markdowns during 1984 placed considerable pressure on gross margins. However, this pressure on gross margins was partially offset by a LIFO credit amounting to \$8.6 million in 1984, in contrast to charges of \$2.0 million in 1983 and \$6.1 million in 1982.

The relationship of selling, general and administrative expenses to sales was 24.0% in 1984, 24.1% in 1983 and 24.6% in 1982.

Net interest expense was 2.3% of sales in both 1984 and 1983 as compared with 2.8% in 1982. Excluding interest costs capitalized on new construction, interest expense increased \$4.2 million in 1984, primarily as a result of higher levels of average debt outstanding during the year and higher interest rates associated with commercial paper borrowings.

The effective income tax rate was 46.9% in 1984 and 1983 and 43.2% in 1982. The investment tax credit was \$3.7 million in 1984, compared with \$5.5 million in 1983. The negative impact on the 1984 effective income tax rate resulting from this reduction in the investment tax credit was offset by the tax benefits associated with the aforementioned 1984 capital gain of \$6.0 million. The lower effective tax rate in 1982 was primarily attributable to a higher investment tax credit of \$6.0 million and the inclusion in earnings of the \$3.6 million non-taxable gain from an exchange of stock for debt.

### *Financial Condition*

Cash flow from operations during 1984 was a record \$244 million. This internal cash flow was sufficient to meet all of the Corporation's working capital needs, dividend and capital expenditure requirements and, further, enabled the Corporation to reduce total debt, which includes short-term notes payable and current maturities of long-term debt, by \$34 million. The current ratio in 1984 improved to 2.14 to 1 as compared with 2.04 to 1 in 1983, and net current assets increased \$114 million to \$884 million, the highest in the history of the Corporation.

Total assets at February 2, 1985 were \$2.7 billion. The major components were customer receivables of \$996 million, merchandise inventories of \$607 million and \$949 million of property and equipment.

Net customer receivables increased \$84 million over the prior year balance due to increased charge sales. The percent of sales made on credit was 67.7% of total sales in 1984, compared with 65.6% and 63.8% in 1983 and 1982, respectively. The quality and estimated collectibility of accounts receivable have remained strong. The allowance for doubtful accounts was 1.88% of customer receivables at year end, versus 1.73% in 1983 and 1.74% in 1982. The net

provision for doubtful accounts in dollars and as a percent of credit sales was as follows: 1984-\$24.5 million (.85%); 1983-\$19.2 million (.74%); 1982-\$17.8 million (.81%).

Merchandise inventories increased 11.7% to \$607 million at February 2, 1985, compared with \$543 million at the end of the prior year. Inventories are considered to be at a satisfactory level relative to planned sales. Inventory shrinkage was 1.7% of sales in 1984 and 1983 and 1.9% in 1982.

The Corporation's planned capital expenditures for the years 1985-1989 will require an investment of approximately \$550 million. A significant portion of this program will be financed with internally generated funds.

During October 1984, the Corporation sold \$125 million of 8¾% convertible subordinated debentures due in 2009. The proceeds were used to reduce commercial paper outstanding, of which \$100 million had been classified as long-term debt in 1983 based on the Corporation's ability to refinance such debt under existing revolving credit agreements or other long-term borrowings.

Stockholders' equity was \$1.06 billion at February 2, 1985, the highest in the Corporation's history, and was equal to \$50.71 per share.

A presentation and discussion of the impact of inflation on the Corporation's results and financial condition are set forth on page 24 of this report.

Dollars in thousands except per share amounts

| Quarter                            | Net Sales   | Cost of Goods<br>Sold, Buying &<br>Occupancy<br>Costs | Net<br>Earnings | Per Share of Common Stock |                              |           |               |       |
|------------------------------------|-------------|-------------------------------------------------------|-----------------|---------------------------|------------------------------|-----------|---------------|-------|
|                                    |             |                                                       |                 | Primary<br>Earnings       | Fully<br>Diluted<br>Earnings | Dividends | Market Prices |       |
|                                    |             |                                                       |                 |                           |                              |           | High          | Low   |
| 53 weeks ended<br>February 2, 1985 |             |                                                       |                 |                           |                              |           |               |       |
| First                              | \$ 841,541  | \$ 586,022                                            | \$ 14,732       | \$ .70                    | \$ .68                       | \$ .50    | \$45¼         | \$38½ |
| Second                             | 873,082     | 608,168                                               | 16,714          | .80                       | .76                          | .50       | 45½           | 38    |
| Third                              | 932,225     | 645,790                                               | 17,628          | .84                       | .79                          | .50       | 54⅛           | 42⅝   |
| Fourth                             | 1,323,621   | 861,091                                               | 91,659          | 4.37                      | 3.59                         | .50       | 56½           | 47¾   |
| <i>Total for Year</i>              | \$3,970,469 | \$2,701,071                                           | \$140,733       | \$6.71                    | \$5.98                       | \$2.00    |               |       |

52 weeks ended  
January 28, 1984

|                       |             |             |           |        |        |        |          |        |
|-----------------------|-------------|-------------|-----------|--------|--------|--------|----------|--------|
| First                 | \$ 761,537  | \$ 527,741  | \$ 13,089 | \$ .63 | \$ .61 | \$ .45 | \$47 1/4 | \$35   |
| Second                | 799,010     | 550,738     | 16,087    | .77    | .74    | .45    | 56 1/2   | 44 1/8 |
| Third                 | 883,303     | 605,584     | 19,182    | .92    | .86    | .45    | 52 3/4   | 45 1/4 |
| Fourth                | 1,232,023   | 805,462     | 80,113    | 3.82   | 3.39   | .50    | 55       | 44 1/8 |
| <i>Total for Year</i> | \$3,675,873 | \$2,489,525 | \$128,471 | \$6.15 | \$5.61 | \$1.85 |          |        |

Earnings per share of Common Stock is computed separately for each period. The sum of the 1984 quarterly fully diluted earnings per share differs from the total for the year due to the issuance of convertible debentures in October 1984.

The Common Stock is listed on the New York Stock Exchange (Symbol ALS) with unlisted trading privileges on other exchanges through the Intermarket Trading System. As of April 1, 1985, there were 19,562 holders of record of this stock.

# Consolidated Statement of Earnings and Retained Earnings

Allied Stores Corporation and Subsidiaries

| <i>Dollars in thousands except per share amounts</i>     | 53 Weeks Ended<br>February 2, 1985 | 52 Weeks Ended<br>January 28, 1984 | 52 Weeks Ended<br>January 29, 1983 |
|----------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <i>Net Sales</i> , including leased departments          | \$3,970,469                        | \$3,675,873                        | \$3,215,634                        |
| <i>Revenues of Real Estate Operations</i>                | 40,136                             | 29,199                             | 30,363                             |
|                                                          | 4,010,605                          | 3,705,072                          | 3,245,997                          |
| <i>Costs and Expenses</i>                                |                                    |                                    |                                    |
| Cost of goods sold, including buying and occupancy costs | 2,701,071                          | 2,489,525                          | 2,208,487                          |
| Selling, general and administrative expenses             | 953,156                            | 887,527                            | 791,181                            |
| Interest expense, net                                    | 91,145                             | 85,974                             | 90,322                             |
| Gain on exchange of stock for debt                       | —                                  | —                                  | (3,602)                            |
|                                                          | 3,745,372                          | 3,463,026                          | 3,086,388                          |
| <i>Earnings Before Income Taxes</i>                      | 265,233                            | 242,046                            | 159,609                            |
| <i>Income Taxes</i>                                      | 124,500                            | 113,575                            | 68,950                             |
| <i>Net Earnings</i>                                      | 140,733                            | 128,471                            | 90,659                             |
| <i>Retained Earnings at Beginning of Year</i>            | 748,639                            | 658,871                            | 605,271                            |
|                                                          | 889,372                            | 787,342                            | 695,930                            |
| <i>Cash Dividends</i>                                    |                                    |                                    |                                    |
| Cumulative Preferred Stock                               | 34                                 | 93                                 | 97                                 |
| Common Stock                                             | 41,934                             | 38,610                             | 36,962                             |
|                                                          | 41,968                             | 38,703                             | 37,059                             |
| <i>Retained Earnings at End of Year</i>                  | \$ 847,404                         | \$ 748,639                         | \$ 658,871                         |
| <i>Earnings Per Share of Common Stock</i>                |                                    |                                    |                                    |
| Primary                                                  | \$6.71                             | \$6.15                             | \$4.41                             |
| Fully diluted                                            | 5.98                               | 5.61                               | 4.33                               |
| <i>Dividends Per Share of Common Stock</i>               | \$2.00                             | \$1.85                             | \$1.80                             |
| <i>Average Common Shares Outstanding</i>                 |                                    |                                    |                                    |
| Primary                                                  | 20,968,056                         | 20,879,060                         | 20,549,828                         |
| Fully diluted                                            | 24,903,470                         | 24,043,335                         | 21,312,352                         |

See notes to consolidated financial statements on pages 20 to 24.

*Consolidated Balance Sheet**Allied Stores Corporation and Subsidiaries**Dollars in thousands except per share amounts*

February 2, 1985

January 28, 1984

*Assets**Current Assets*

|                             |           |           |
|-----------------------------|-----------|-----------|
| Cash                        | \$ 11,746 | \$ 11,967 |
| Accounts receivable         |           |           |
| Customers                   | 995,812   | 911,674   |
| Suppliers and others        | 25,259    | 28,828    |
| Merchandise inventories     | 606,770   | 543,259   |
| Prepaid expenses            | 19,296    | 16,343    |
| <i>Total Current Assets</i> | 1,658,883 | 1,512,071 |

*Property and Equipment*

948,740

946,884

*Other Assets*

68,019

71,420

*Total Assets*

\$2,675,642

\$2,530,375

*Liabilities and Stockholders' Equity**Current Liabilities*

|                                        |           |           |
|----------------------------------------|-----------|-----------|
| Notes payable                          | \$ 65,000 | \$ 98,650 |
| Accounts payable                       | 303,647   | 282,765   |
| Accrued expenses                       | 128,966   | 127,527   |
| Taxes, other than federal income taxes | 53,367    | 49,385    |
| Federal income taxes                   |           |           |
| Current                                | 43,214    | 26,514    |
| Deferred                               | 139,208   | 122,438   |
| Current maturities of long-term debt   | 41,385    | 34,680    |
| <i>Total Current Liabilities</i>       | 774,787   | 741,959   |

*Long-Term Debt*

|                               |         |         |
|-------------------------------|---------|---------|
| Senior                        | 400,710 | 530,249 |
| Convertible subordinated      | 249,797 | 125,007 |
| Capitalized lease obligations | 102,886 | 100,872 |

*Deferred Federal Income Taxes*

84,132

68,008

*Stockholders' Equity*

Common Stock, no par value; authorized 75,000,000 shares:

|                                                |         |         |
|------------------------------------------------|---------|---------|
| outstanding (amount fixed at \$1.00 per share) | 20,970  | 20,963  |
| Additional paid-in capital                     | 194,956 | 194,678 |
| Retained earnings                              | 847,404 | 748,639 |

*Stockholders' Equity*

1,063,330

964,280

*Total Liabilities and Stockholders' Equity*

\$2,675,642

\$2,530,375

*See notes to consolidated financial statements on pages 20 to 24.*

# Consolidated Statement of Changes in Financial Position

Allied Stores Corporation and Subsidiaries

| <i>Dollars in thousands</i>                                              | 53 Weeks Ended<br>February 2, 1985 | 52 Weeks Ended<br>January 28, 1984 | 52 Weeks Ended<br>January 29, 1983 |
|--------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <i>Cash Provided From Operations</i>                                     |                                    |                                    |                                    |
| Net earnings                                                             | \$140,733                          | \$128,471                          | \$ 90,659                          |
| Depreciation                                                             | 79,848                             | 74,848                             | 68,744                             |
| Amortization                                                             | 6,897                              | 6,425                              | 4,858                              |
| Increase in deferred federal income taxes                                | 16,124                             | 15,709                             | 11,622                             |
|                                                                          | 243,602                            | 225,453                            | 175,883                            |
| <i>Other Uses (Sources) of Cash</i>                                      |                                    |                                    |                                    |
| Dividends paid                                                           | 41,968                             | 38,703                             | 37,059                             |
| Investment in property and equipment                                     | 91,388                             | 103,068                            | 97,800                             |
| Disposition of property and equipment                                    | (9,684)                            | (5,379)                            | (3,456)                            |
| Increase (decrease) in other assets                                      | (1,289)                            | 4,128                              | 2,051                              |
| Working capital                                                          |                                    |                                    |                                    |
| Accounts receivable                                                      | 80,569                             | 146,259                            | 66,949                             |
| Merchandise inventories                                                  | 63,511                             | 76,581                             | 21,526                             |
| Prepaid expenses                                                         | 2,953                              | 768                                | (4,975)                            |
| Accounts payable and accrued expenses                                    | (22,321)                           | (57,763)                           | (23,140)                           |
| Taxes, other than federal income taxes                                   | (3,982)                            | (7,745)                            | (5,856)                            |
| Federal income taxes                                                     | (33,470)                           | (24,474)                           | (17,603)                           |
|                                                                          | 209,643                            | 274,146                            | 170,355                            |
| <i>Increase (Decrease) in Cash Before<br/>    Financing Transactions</i> | 33,959                             | (48,693)                           | 5,528                              |
| <i>Financing Transactions</i>                                            |                                    |                                    |                                    |
| New long-term debt                                                       | 138,295                            | 12,422                             | 226,223                            |
| Reduction in long-term debt                                              | (145,603)                          | (51,752)                           | (42,521)                           |
| Increase (decrease) in short-term debt                                   | (26,945)                           | 80,205                             | (210,461)                          |
| Common stock issued, net                                                 | 73                                 | 6,620                              | 16,222                             |
|                                                                          | (34,180)                           | 47,495                             | (10,537)                           |
| <i>Increase (Decrease) in Cash</i>                                       | \$ (221)                           | \$ (1,198)                         | \$ (5,009)                         |

See notes to consolidated financial statements on pages 20 to 24.

Dollars in thousands except as otherwise indicated

### Business

Allied Stores Corporation, a leading retailing organization, operates 597 stores throughout the United States which sell a wide range of merchandise, including men's, women's and children's apparel, cosmetics, home furnishings and other consumer needs.

### Significant Accounting Policies

**Principles of Consolidation:** The consolidated financial statements of Allied Stores Corporation include the accounts of all the Corporation's subsidiaries, which are the merchandising subsidiaries, Allied Stores Credit Corporation and Alstores Realty Corporation. Condensed financial statements of the credit and real estate subsidiaries are presented on page 26.

**Earnings Per Share:** Primary earnings per share of Common Stock were determined by dividing net earnings, after deducting dividends on preferred stock, by the average number of shares outstanding during each year. Fully diluted earnings per share assumes the conversion of debentures and the exercise of stock options.

**Inventories:** Merchandise inventories are stated at the lower of cost or market determined by the retail inventory method using, as to approximately 81% of the inventories, the LIFO (last-in, first-out) method. Inventories are stated at \$58.1 million in 1984 and \$66.7 million in 1983 less than if the first-in, first-out method had been used.

**Property and Equipment:** Properties are recorded at cost and depreciation is computed on a straight-line basis over the estimated useful lives of the assets, or, in the case of leasehold interests and improvements, over the lives of the respective leases, if shorter. The estimated useful lives for depreciation of the principal properties are: store buildings and warehouses, 40 to 50 years; elevators, escalators and building equipment, 15 to 20 years; store fixtures and equipment, 3 to 15 years. Capitalized leases are amortized over the respective lease terms.

**Excess of Cost Over Net Assets Acquired:** The excess of cost over net assets acquired is included in "Other Assets." Amortization is computed on a straight-line basis over 40 years.

**Store Opening Expenses:** The expenses related to new store openings are charged to operations in the fiscal year incurred.

**Federal Income Taxes:** The provision for federal income taxes includes amounts which will not be paid until future years. This deferral results primarily from the use, for tax purposes, of accelerated depreciation and of the instalment method of accounting for deferred payment sales. The deferral resulting from the latter is included with current liabilities and has been reduced by the tax effect of other timing differences. The investment tax credit, accounted for by the flow-through method, is reflected as a reduction in the current federal income tax provision.

### Interest Expense, Net

The components of interest expense are as follows:

|                                      | 1984     | 1983     | 1982     |
|--------------------------------------|----------|----------|----------|
| Interest on debt                     | \$82,277 | \$77,651 | \$82,281 |
| Interest on capitalized leases       | 10,187   | 10,593   | 11,216   |
| Interest capitalized on construction | (1,319)  | (2,270)  | (3,175)  |
|                                      | \$91,145 | \$85,974 | \$90,322 |

### Income Taxes

The provision for income taxes consists of:

|                              | 1984      | 1983      | 1982     |
|------------------------------|-----------|-----------|----------|
| Federal income taxes         |           |           |          |
| Currently payable            | \$ 76,131 | \$ 63,907 | \$31,072 |
| Deferred                     | 32,894    | 35,118    | 30,328   |
|                              | 109,025   | 99,025    | 61,400   |
| State and local income taxes | 15,475    | 14,550    | 7,550    |
|                              | \$124,500 | \$113,575 | \$68,950 |

The major components of the deferred tax provision are:

|                                           | 1984     | 1983     | 1982     |
|-------------------------------------------|----------|----------|----------|
| Excess of tax over book depreciation      | \$17,660 | \$14,528 | \$12,465 |
| Instalment method of accounting for sales | 14,471   | 20,579   | 14,451   |
| Other                                     | 763      | 11       | 3,412    |
|                                           | \$32,894 | \$35,118 | \$30,328 |

The effective income tax rates were 46.9% in 1984 and 1983 and 43.2% in 1982, consisting of federal taxes of 43.7%, 43.5% and 40.4% and state and local taxes, net of federal income tax benefit, of 3.2% in 1984, 3.4% in 1983 and 2.8% in 1982. The investment tax credit was \$3.7 million in 1984, compared with \$5.5 million in 1983 and \$6.0 million in 1982 and was at the rate of 8% in 1984 and 1983 as compared with 10% in 1982.

During 1984, the Corporation and its affiliated foundation made charitable contributions of approximately \$1.9 million.

#### *Accounts Receivable—Customers*

|                                      | February<br>2, 1985 | January<br>28, 1984 |
|--------------------------------------|---------------------|---------------------|
| Revolving credit accounts            | \$ 905,322          | \$835,921           |
| Installment accounts                 | 100,929             | 79,854              |
| Other accounts                       | 8,633               | 11,993              |
|                                      | 1,014,884           | 927,768             |
| Less allowance for doubtful accounts | 19,072              | 16,094              |
|                                      | \$ 995,812          | \$911,674           |

Revenue from finance service charges relating to customer receivables, which is deducted from selling, general and administrative expenses, amounted to \$129.8 million in 1984, compared with \$109.1 million in 1983 and \$93.8 million in 1982.

#### *Property and Equipment*

|                                         | February<br>2, 1985 | January<br>28, 1984 |
|-----------------------------------------|---------------------|---------------------|
| Land                                    | \$ 79,244           | \$ 82,908           |
| Buildings, leaseholds and equipment     | 654,631             | 642,094             |
| Store fixtures and equipment            | 512,272             | 482,222             |
| Improvements in progress                | 21,153              | 21,533              |
|                                         | 1,267,300           | 1,228,757           |
| Less accumulated depreciation           | 403,639             | 365,971             |
|                                         | 863,661             | 862,786             |
| Capitalized leases, net of amortization | 85,079              | 84,098              |
|                                         | \$ 948,740          | \$ 946,884          |

#### *Bank Credit Arrangements*

As of February 2, 1985, Allied Stores Corporation and/or Allied Stores Credit Corporation had lines of credit totaling \$430 million extended by 89 banks. In support of these lines and also serving as compensation for account handling functions and other services, the Corporation and all of its subsidiaries either pay fees or maintain operating cash balances. There are no restrictions on the withdrawal of these funds. In addition, the Corporation has revolving credit agreements with three banks totaling \$100 million which terminate in October 1987. At February 2, 1985, there were no short-term borrowings outstanding with banks.

#### *Long-Term Debt*

|                                                                 | February<br>2, 1985 | January<br>28, 1984 |
|-----------------------------------------------------------------|---------------------|---------------------|
| Senior                                                          |                     |                     |
| Allied Stores Corporation                                       |                     |                     |
| 6% original issue discount notes,<br>due May 15, 1992           | \$110,890           | \$106,105           |
| 10% notes, due June 15, 1990                                    | 82,000              | 82,000              |
| Other                                                           | 1,370               | 1,399               |
| Allied Stores Credit Corporation                                |                     |                     |
| Commercial paper                                                | —                   | 100,000             |
| 9.20% note, due February 15, 1985                               | —                   | 10,000              |
| Alstores Realty Corporation and<br>subsidiaries notes and bonds | 194,257             | 206,134             |
| Merchandising subsidiary notes and bonds                        | 12,193              | 22,350              |
| 4% cumulative preferred stock                                   | —                   | 2,264               |
|                                                                 | \$400,710           | \$530,249           |

The Corporation's 6% original issue discount notes, with a face amount of \$175 million, due May 15, 1992 were priced at 56.741% of par to yield 14.25% to maturity.

On July 21, 1982, the Corporation realized a non-taxable gain of \$3.6 million through an exchange of 550,676 shares of Common Stock for \$18 million of the Corporation's 10% Notes due 1990.

As of January 28, 1984, the Corporation had classified \$100 million of commercial paper as long-term debt based upon its ability to refinance such debt under existing revolving credit agreements or other long-term borrowings. The proceeds from the October 1984 sale of the 8¾% convertible subordinated debentures were used to reduce commercial paper outstanding; as a result, \$100 million of commercial paper is no longer reclassified.

Notes and bonds of a merchandising subsidiary and Alstores Realty Corporation and subsidiaries (in millions) mature in the next five years as follows: 1985—\$25.3; 1986—\$12.4; 1987—\$13.2; 1988—\$13.1; 1989—\$13.4, and the balance thereafter. The Alstores indebtedness (in millions) bears interest at the following rates: 4%-7½%, \$57.8; 8¼%-8¾%, \$38.5; 9%-9¾%, \$82.5; 10%-10½%, \$13.1; 12½%-14¼%, \$17.5. Substantially all of the Alstores indebtedness is collateralized by mortgage liens on property and equipment.

The merchandising subsidiary indebtedness bears interest at rates ranging from 5.75% to 11.90%. This acquired debt, discounted by \$3.8 million as of February 2, 1985, results in an effective average interest rate of 13.7%. Approximately 45% of this indebtedness is unsecured, with the remainder secured by mortgage liens on property and equipment.

The provisions of the long-term debt agreements impose, among other things, limitations with respect to the payment of dividends on Common Stock. Under the most restrictive provision, which relates to net earnings, approximately \$327 million of retained earnings at February 2, 1985 was available for the payment of dividends.

On March 27, 1984, the Board of Directors of the Corporation approved the redemption as of April 30, 1984, at par value plus accrued dividends, of the 17,256 shares of 4% Cumulative Preferred Stock then outstanding and the retirement of the redeemed shares and the 5,379 shares then held in treasury.

|                                                       | February<br>2, 1985 | January<br>28, 1984 |
|-------------------------------------------------------|---------------------|---------------------|
| <b>Convertible Subordinated</b>                       |                     |                     |
| Allied Stores Corporation                             |                     |                     |
| 8¾% convertible debentures,<br>due July 15, 2009      | \$125,000           | \$ —                |
| 9½% convertible debentures,<br>due November 1, 2007   | 124,250             | 124,250             |
| 4½% convertible debentures,<br>due September 15, 1992 | 547                 | 757                 |
|                                                       | \$249,797           | \$125,007           |

On October 3, 1984, the Corporation sold \$125 million of 8¾% convertible subordinated debentures due July 15, 2009, which are convertible into shares of Common Stock at \$54.63 per share; the 9½% convertible subordinated debentures due November 1, 2007 are convertible at \$40.00 per share; and the 4½% convertible subordinated debentures due September 15, 1992 are convertible at \$22.25 per share. Debentures converted may be applied against sinking fund requirements. At February 2, 1985, 5,419,163 shares of Common Stock were reserved for such conversions.

### Stockholders' Equity

Changes in Common Stock and Additional Paid-In Capital were as follows:

|                                                                               | Common<br>Stock | Additional<br>Paid-In<br>Capital |
|-------------------------------------------------------------------------------|-----------------|----------------------------------|
| Balance, January 30, 1982                                                     | \$20,230        | \$172,478                        |
| Issued under stock option and restricted<br>stock incentive plans             | 32              | 596                              |
| Conversion of debentures                                                      | 8               | 188                              |
| Repurchase of preferred stock                                                 | —               | 43                               |
| Premium on sale of convertible debentures                                     | —               | 813                              |
| Exchange of stock for debt                                                    | 551             | 14,034                           |
| Balance, January 29, 1983                                                     | 20,821          | 188,152                          |
| Issued under stock option and restricted<br>stock incentive plans             | 112             | 5,503                            |
| Conversion of debentures                                                      | 30              | 975                              |
| Repurchase of preferred stock                                                 | —               | 48                               |
| Balance, January 28, 1984                                                     | 20,963          | 194,678                          |
| Issued (forfeited) under stock option and<br>restricted stock incentive plans | (2)             | (134)                            |
| Conversion of debentures                                                      | 9               | 200                              |
| Repurchase of preferred stock                                                 | —               | 212                              |
| Balance, February 2, 1985                                                     | \$20,970        | \$194,956                        |

The Corporation holds Common Stock in Treasury totaling 1,047,497 shares in 1984 and 1,045,564 shares in 1983.

At the 1984 annual meeting of stockholders, the amount of authorized shares of Common Stock was increased to 75,000,000. In addition, the Corporation was given authorization to issue up to 10,000,000 new shares of \$1 par value Preferred Stock.

### Stock Option Plans

The Corporation maintains two stock option plans, the Stock Option Plan of 1974 (which expired on March 25, 1984) and the 1984 Stock Option Plan.

The changes in the number of shares subject to option under the 1974 Plan were as follows:

|                                              | February 2, 1985 |                    | January 28, 1984 |             |
|----------------------------------------------|------------------|--------------------|------------------|-------------|
|                                              | Shares           | Grant Price        | Shares           | Grant Price |
| Outstanding at<br>beginning of<br>year       | 24,117           | \$19.88            | 28,142           | \$19.88     |
| Granted                                      | 254,650          | 45.75              | —                | —           |
| Exercised                                    | (1,367)          | 19.88              | (4,025)          | 19.88       |
| Cancelled                                    | (8,900)          | 45.75              | —                | —           |
| Outstanding at<br>end of year                | 268,500          | \$19.88 -<br>45.75 | 24,117           | \$19.88     |
| Exercisable at<br>end of year                | 22,750           | \$19.88            | 24,117           | \$19.88     |
| Shares available<br>for additional<br>grants | —                |                    | 353,119          |             |

Options were priced at 100% of the fair market value at the date of grant and expire ten years from said date.

During 1984, the stockholders of the Corporation approved the 1984 Stock Option Plan which provides for the granting to key employees of the Corporation a maximum of 1,000,000 stock options with tandem stock appreciation rights. As of February 2, 1985, no such options or rights had been awarded.

### *Restricted Stock Incentive Plans*

The Corporation's Restricted Stock Incentive Plan consists of the "1978 Plan" (which expired on March 25, 1984) and the "1984 Plan". Under the 1978 Plan, a maximum of 250,000 shares of Common Stock could have been awarded to key employees. Shares so awarded could not be released to the recipients until the expiration of from one to five years of continuous employment (the restricted period). The total market value on the award date is charged to earnings over the applicable restricted periods. During 1984, no shares were awarded, 31,500 shares previously awarded were released, 3,300 shares were forfeited and 17,850 shares ceased to be available for future award due to the expiration of the plan. As of February 2, 1985, 106,150 shares remained under restriction.

During 1984, the stockholders of the Corporation approved the 1984 Plan which provides for the award of an aggregate of 1,000,000 shares of Common Stock and share units. Common Stock and share units so awarded shall not be released to the recipients until the expiration of from one to five years of continuous employment (the restricted period). The release of share units consists of payment to the employee of an amount in cash equal to the sum of (i) the fair market value of a share of Common Stock for each share unit on the date the restricted period terminates and (ii) dividends credited to each share unit equal to the cash dividends payable on one share of Common Stock with respect to the period from the award date to the end of the restricted period. As of February 2, 1985, no restricted stock or share units had been awarded under this Plan.

### *Retirement and Profit Sharing Program*

The Corporation and its subsidiaries have a retirement program covering substantially all full-time employees. Total pension expense in millions was \$15.4 in 1984 and \$14.6 and \$17.1 in 1983 and 1982, respectively. The Corporation makes an annual contribution to the program equal to the amount accrued for pension expense, which includes amortization of past service cost over 30 years. A comparison of accumulated plan benefits, as determined by consulting actuaries, and plan net assets as of the beginning of each year is presented below:

|                                                      | 1984      | 1983      |
|------------------------------------------------------|-----------|-----------|
| Actuarial present value of accumulated plan benefits |           |           |
| Vested                                               | \$216,100 | \$195,700 |
| Non-vested                                           | 13,000    | 11,800    |
| Total                                                | \$229,100 | \$207,500 |
| Net assets available for benefits                    | \$228,223 | \$204,064 |

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7½%.

The Corporation also has a profit-sharing investment program covering all eligible employees who elect to contribute thereto. The Corporation's contribution is based on the percentage of net earnings to net sales. Such contribution in millions was \$16.1 in 1984 and \$12.6 and \$6.4 in 1983 and 1982, respectively.

In addition, the Corporation provides life insurance benefits for active and retired employees. All full-time employees may become eligible for these benefits which are provided through an insurance company. The cost of providing these benefits for retirees is not significant.

### *Rentals and Lease Commitments*

Noncancelable leases entered into by the Corporation and its subsidiaries are primarily for retail stores, fixtures and equipment and warehousing and office facilities. The leases usually contain renewal options and provide for payment by the lessee of real estate taxes and other expenses and, in certain instances, increased rentals based on percentage of sales.

Property and equipment under capital leases consists of the following:

|                                       | February<br>2, 1985 | January<br>28, 1984 |
|---------------------------------------|---------------------|---------------------|
| Buildings, improvements and equipment | \$125,422           | \$119,183           |
| Store fixtures and equipment          | 27,310              | 37,306              |
|                                       | 152,732             | 156,489             |
| Less accumulated amortization         | 67,653              | 72,391              |
|                                       | \$ 85,079           | \$ 84,098           |

Future minimum lease payments under noncancelable leases as of February 2, 1985 are as follows:

|                                                                          | Operating<br>Leases | Capital<br>Leases |
|--------------------------------------------------------------------------|---------------------|-------------------|
| 1985                                                                     | \$ 45,522           | \$ 18,684         |
| 1986                                                                     | 42,331              | 16,925            |
| 1987                                                                     | 39,438              | 16,351            |
| 1988                                                                     | 37,578              | 15,897            |
| 1989                                                                     | 35,134              | 14,954            |
| Thereafter                                                               | 347,567             | 183,167           |
| Total minimum lease payments                                             | 547,570             | 265,978           |
| Less: Executory costs                                                    | 36,243              | 23,655            |
| Interest                                                                 | 268,719             | 133,386           |
| Present value, including current maturities of capital leases of \$6.051 | \$242,608           | \$108,937         |

The present value of capital and operating leases is determined by discounting future minimum rent commitments at

rates which approximate lessor's financing costs at the inception of the lease and assumed executory and administrative costs.

Rent expense consists of the following:

|                                                                                                                 | 1984     | 1983     | 1982     |
|-----------------------------------------------------------------------------------------------------------------|----------|----------|----------|
| Minimum rentals                                                                                                 | \$60,740 | \$55,913 | \$52,113 |
| Percentage rentals (includes \$4,109 in 1984, \$3,978 in 1983 and \$3,259 in 1982 applicable to capital leases) | 15,954   | 14,403   | 11,790   |
|                                                                                                                 | \$76,694 | \$70,316 | \$63,903 |

### *Inflation Accounting (Unaudited)*

The Financial Accounting Standards Board Statement No. 33 requires that supplementary information be furnished for the purpose of evaluating the impact of changing prices on a business enterprise. The "Current Cost" method, which reflects changes in specific prices, measures the number of dollars currently required to purchase inventory and property and equipment having the same service potential as those owned by the Corporation. This method, which is still experimental, does not precisely measure the effects of inflation but rather should be viewed as an estimate or approximation. Accordingly, it is not necessarily a reliable indicator of the effects of inflation on the Corporation's operating results or its financial position. This information should only be used with careful consideration of the underlying concepts.

Certain data for 1984, adjusted in accordance with FASB Statement No. 33, is as follows:

|                                                                                                         | Reported in<br>Financial<br>Statements | Current<br>Cost<br>Adjusted |
|---------------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------|
| Net sales and real estate revenues                                                                      | \$4,010,605                            | \$4,010,605                 |
| Depreciation                                                                                            | 79,848                                 | 111,724                     |
| Other costs and expenses                                                                                | 3,574,379                              | 3,575,379                   |
| Interest expense, net                                                                                   | 91,145                                 | 91,145                      |
| Income taxes                                                                                            | 124,500                                | 124,500                     |
|                                                                                                         | 3,869,872                              | 3,902,748                   |
| Net earnings                                                                                            | \$ 140,733                             | \$ 107,857                  |
| Gain from decline in purchasing power of net amounts owed                                               |                                        | \$ 24,200                   |
| Increase in specific prices of inventories and property and equipment held during the year <sup>†</sup> |                                        | \$ 93,992                   |
| Effect of increase in general price level on inventories and property and equipment                     |                                        | 86,250                      |
| Excess of increase in specific prices over increase in general price level                              |                                        | \$ 7,742                    |

<sup>†</sup>At February 2, 1985, current cost of inventories was \$671,366 and current cost of property and equipment, net of accumulated depreciation, was \$1,469,511

The gain from decline in purchasing power of net amounts owed represents the decline in purchasing power of dollars required to liquidate the excess of monetary liabilities over monetary assets (amounts payable or receivable in fixed numbers of dollars).

In determining inflation-adjusted net earnings, only cost of goods sold and depreciation are required to be restated. Statement No. 33 further provides that income tax expense should not be restated since income taxes are determined and payable on the basis of historical earnings. As a result, the 47% effective income tax rate on the historical cost basis rises to 54% on the current cost basis.

Five-year selected financial data, expressed in average 1984 dollars as measured by the Consumer Price Index (CPI-U) in accordance with FASB Statement No. 33, plus restatement of sales using the Department Stores Inventory Price Index (BLS) published by the U. S. Department of Labor, which has been historically lower than the CPI-U, follows:

| <i>Dollars in millions except per share amounts</i>                                     | 1984             | 1983    | 1982             | 1981    | 1980             |
|-----------------------------------------------------------------------------------------|------------------|---------|------------------|---------|------------------|
| Average CPI-U (1967 = 100.0)                                                            | 312.0            | 299.3   | 290.0            | 274.2   | 249.1            |
| Increase in indices                                                                     |                  |         |                  |         |                  |
| CPI-U                                                                                   | 4.2%             | 3.2%    | 5.8%             | 10.1%   | 13.3%            |
| BLS                                                                                     | 1.0%             | 2.7%    | 2.8%             | 4.7%    | 6.3%             |
| Net sales                                                                               |                  |         |                  |         |                  |
| CPI-U                                                                                   | \$3,970          | \$3,832 | \$3,460          | \$3,110 | \$2,841          |
| BLS                                                                                     | 3,970            | 3,713   | 3,338            | 2,916   | 2,534            |
| Current cost information                                                                |                  |         |                  |         |                  |
| Adjusted net earnings                                                                   | 107.9            | 108.2   | 74.0             | 74.2    | 82.3             |
| Per common share                                                                        | 5.14             | 5.18    | 3.60             | 3.67    | 4.03             |
| Stockholders' equity at year end                                                        | 1,621            | 1,533   | 1,390            | 1,359   | 1,383            |
| Excess (deficiency) of increase in specific prices over increase in general price level | 7.7              | 49.3    | (36.3)           | (79.8)  | (97.2)           |
| Gain from decline in purchasing power of net amounts owed                               | 24.2             | 20.8    | 24.2             | 32.1    | 24.9             |
| Dividends paid per common share                                                         | 2.00             | 1.93    | 1.94             | 1.99    | 2.13             |
| Market price per common share at year end                                               | 51 $\frac{1}{8}$ | 47      | 37 $\frac{3}{8}$ | 30      | 26 $\frac{3}{8}$ |

### *Management's Report*

The financial statements of Allied Stores Corporation and subsidiaries have been prepared by management, which has primary responsibility for their integrity and objectivity. These statements have been prepared in conformity with generally accepted accounting principles, applying certain judgments and estimates as required. The financial information contained elsewhere in this report is consistent with that in the accompanying financial statements.

The Corporation has developed and maintains a system of internal accounting controls, including an extensive internal audit program, which is designed to provide reasonable assurance that its assets are protected from improper use and that transactions and financial information are properly recorded. The system is modified in response to changing business conditions and operations and to recommendations made by a trained internal audit staff and by Touche Ross & Co., independent certified public accountants.

The Corporation has adopted a Code of Ethical Standards and Business Practices which is intended to guide employees in the observance of high ethical standards and applicable legal requirements in the conduct of the business. Compliance with the code is reviewed annually and acknowledged in writing by all executive and managerial employees.

Touche Ross & Co. have examined the accompanying consolidated financial statements of Allied Stores Corpora-

tion and subsidiaries. Their report, which appears on this page, indicates that their examinations were made in accordance with generally accepted auditing standards. These standards included a review of the Corporation's system of internal accounting control as an integral part of their examinations of the financial statements.

The Board of Directors has an Audit and Finance Committee, consisting of six outside directors. The duties of the Committee include keeping informed of the financial condition of the Corporation and reviewing its financial policies and procedures, its internal accounting controls and the objectivity of its financial reporting. Both Touche Ross & Co. and the internal auditors have free access to the Audit and Finance Committee and meet with it periodically, with and without management present.



Thomas M. Macioce  
President and Chief Executive Officer



Howard E. Hassler  
Executive Vice President, Finance

April 19, 1985

### *Accountants' Report*

Stockholders and Board of Directors  
Allied Stores Corporation, New York, N. Y.

We have examined the consolidated balance sheets of Allied Stores Corporation and subsidiaries as of February 2, 1985 and January 28, 1984 and the related statements of earnings and retained earnings and changes in financial position for each of the three years in the period ended February 2, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Allied Stores Corporation and subsidiaries at February 2, 1985 and January 28,

1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended February 2, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.



Certified Public Accountants

Touche Ross & Co.  
1633 Broadway  
New York, N. Y.

April 19, 1985

# Condensed Financial Statements of Credit and Real Estate Subsidiaries

Dollars in thousands

## Allied Stores Credit Corporation and Subsidiary

|                                                         | February 2, 1985                   | January 28, 1984                   |
|---------------------------------------------------------|------------------------------------|------------------------------------|
| Accounts purchased from Allied Stores Corporation       | \$233,274                          | \$312,519                          |
| Amounts withheld pending collection and deferred income | (29,847)                           | (40,628)                           |
| Cash and prepaid interest                               | 364                                | 965                                |
| <b>Total Assets</b>                                     | <b>\$203,791</b>                   | <b>\$272,856</b>                   |
| Notes payable                                           | \$ 65,000                          | \$198,650                          |
| Accrued taxes and interest                              | 1,537                              | 3,015                              |
| Subordinated long-term debt                             | 10,000                             | 10,000                             |
| Equity and advances of Allied Stores Corporation        | 127,254                            | 61,191                             |
| <b>Total Liabilities and Equity</b>                     | <b>\$203,791</b>                   | <b>\$272,856</b>                   |
|                                                         | 53 Weeks Ended<br>February 2, 1985 | 52 Weeks Ended<br>January 28, 1984 |
| Finance charge revenue                                  | \$ 36,015                          | \$ 39,078                          |
| Interest                                                | 22,308                             | 24,338                             |
| Income taxes and other expenses                         | 6,139                              | 6,485                              |
| Total expenses                                          | 28,447                             | 30,823                             |
| <b>Net Earnings</b>                                     | <b>\$ 7,568</b>                    | <b>\$ 8,255</b>                    |

## Alstores Realty Corporation and Subsidiaries

|                                                                  | February 2, 1985                   | January 28, 1984                   |
|------------------------------------------------------------------|------------------------------------|------------------------------------|
| Property and equipment                                           | \$398,028                          | \$407,637                          |
| Cash and other assets                                            | 11,482                             | 11,189                             |
| <b>Total Assets</b>                                              | <b>\$409,510</b>                   | <b>\$418,826</b>                   |
| Accounts payable and accrued expenses                            | \$ 42,253                          | \$ 36,565                          |
| Notes and bonds payable                                          | 209,402                            | 221,598                            |
| Equity and advances of Allied Stores Corporation                 | 157,855                            | 160,663                            |
| <b>Total Liabilities and Equity</b>                              | <b>\$409,510</b>                   | <b>\$418,826</b>                   |
|                                                                  | 53 Weeks Ended<br>February 2, 1985 | 52 Weeks Ended<br>January 28, 1984 |
| Rentals (\$57,845 and \$55,584 from affiliates) and other income | \$ 89,633                          | \$ 84,783                          |
| Interest                                                         | 21,558                             | 24,254                             |
| Depreciation                                                     | 19,837                             | 20,052                             |
| Other expenses                                                   | 11,422                             | 11,336                             |
| Income taxes                                                     | 16,725                             | 13,275                             |
| Total expenses                                                   | 69,542                             | 68,917                             |
| <b>Net Earnings</b>                                              | <b>\$ 20,091</b>                   | <b>\$ 15,866</b>                   |

# Allied Stores Corporation

| <i>Department Stores</i>          | <i>Primary Market Area</i>         | <i>Number of Stores</i>         | <i>Square Feet</i> | <i>Division Chief Executive Officer</i> |
|-----------------------------------|------------------------------------|---------------------------------|--------------------|-----------------------------------------|
| <b>Jordan Marsh</b>               | New England                        | 17                              | 3,837,000          | Elliot J. Stone                         |
| <b>READ'S</b>                     | Connecticut                        | 6                               | 865,000            | Saul Zeidman                            |
| <b>STERN'S</b>                    | New Jersey and Long Island, N. Y.  | 17                              | 2,846,000          | Lawrence Stone                          |
| POMEROY'S                         | Eastern Pennsylvania               | 8                               | 1,130,000          | Hugh D. McDonald                        |
| POMEROY'S                         | Central and Western Pennsylvania   | 7                               | 1,141,000          | Joseph R. Colarusso                     |
| <b>DEYS</b>                       | Syracuse, N. Y.                    | 4                               | 621,000            | Edward J. Munley                        |
| Maas Brothers                     | Florida West Coast                 | 19                              | 2,586,000          | Frank W. Harvey                         |
| <b>Jordan Marsh</b>               | Florida East Coast                 | 15                              | 2,732,000          | William D. Frederick                    |
| <i>Miller &amp; Rhoads</i>        | Virginia and North Carolina        | 22                              | 1,848,000          | Robert Rieland                          |
| <i>Millers</i>                    | Eastern Tennessee                  | 13                              | 1,370,000          | Alvin A. Underwood                      |
| <b>CRAIG BLOOM</b>                | Nashville, Tennessee               | 4                               | 769,000            | Jack N. Curtis                          |
| <b>Lewy's</b>                     | Savannah, Georgia                  | 2                               | 177,000            | William B. Robinson                     |
| Donaldsons                        | Minnesota                          | 9                               | 1,156,000          | Leonard M. Snyder                       |
| <b>BLOCKS</b>                     | Indianapolis, Indiana              | 11                              | 1,502,000          | E. Glenn Irelan                         |
| HERP'S                            | Western Michigan                   | 6                               | 767,000            | Albert J. Flogge                        |
| <b>HEER'S</b>                     | Springfield, Missouri              | 2                               | 189,000            | Robert W. Stelzer                       |
| JOSKE'S                           | Houston, Texas                     | 11                              | 1,820,000          | Ronald H. Lane                          |
| JOSKE'S                           | San Antonio, Texas                 | 7                               | 1,489,000          | Robert L. Mettler                       |
| JOSKE'S                           | Dallas, Texas                      | 10                              | 1,848,000          | Charles B. James, II                    |
| <b>MULLER'S</b>                   | Lake Charles, Louisiana            | 1                               | 79,000             | Roland S. Sherwood                      |
| <b>THE BOV</b>                    | Pacific Northwest                  | 37                              | 4,417,000          | Wilbur J. Fix                           |
| <i>Specialty Stores</i>           |                                    |                                 |                    |                                         |
| <i>Brooks Brothers</i>            | National                           | 40 in U.S.<br>7 in Japan        | 809,000            | Frank T. Reilly                         |
| BONWIT<br>TELLER                  | National                           | 15                              | 1,048,000          | William S. Ruben                        |
| Carfindels                        | Washington, D.C.                   | 10                              | 920,000            | Robert G. Vandemark                     |
| AnnTaylor                         | National                           | 59                              | 206,000            | Sally J. Frame                          |
| <i>Catherines</i><br>STOUT SHOPPE | National                           | 148 Catherine's<br>42 Plus-Size | 565,000            | Ralph Levy, Jr.                         |
| <b>Plymouth!</b>                  | New York City and Washington, D.C. | 48                              | 208,000            | Melvyn R. Kuritzky                      |

*Directors*

Frank A. Bennack, Jr.<sup>1 3 4</sup>  
*President and Chief Executive Officer*  
*of The Hearst Corporation*

Lillian Berkman<sup>2</sup>  
*President and Chief Executive Officer*  
*of General Alarm Corporation*

Milton P. Brown<sup>1 2 3</sup>  
*Lincoln Filene Professor of Retailing*  
*Harvard Graduate School of Business Administration*

John T. Cullen  
*Senior Executive Vice President of the Corporation*

John P. Diesel  
*President and Chief Operating Officer*  
*of Tenneco, Inc.*

Donald F. Dunn  
*Senior Vice President of the Corporation*

Leonard H. Goldenson<sup>2 3</sup>  
*Chairman of the Board and Chief Executive Officer*  
*of American Broadcasting Companies, Inc.*

Howard E. Hassler  
*Executive Vice President of the Corporation*

George C. Kern, Jr.<sup>1 3 4</sup>  
*Attorney, partner in the firm of Sullivan & Cromwell*

Thomas M. Macioce<sup>1 4</sup>  
*President and Chief Executive Officer of the Corporation*

William A. Marquard<sup>3</sup>  
*Chairman of the Board and Chief Executive Officer*  
*of American Standard, Inc.*

Frank T. Reilly  
*Senior Vice President of the Corporation*

George A. Roeder, Jr.<sup>2</sup>  
*Retired Vice Chairman of the Board*  
*of The Chase Manhattan Bank, N.A.*

Theodore C. Rogers<sup>2</sup>  
*Chairman of the Board and Chief Executive Officer*  
*of NL Industries, Inc.*

Franklin A. Thomas<sup>1 2 3 4</sup>  
*President of the Ford Foundation*

James A. Walsh  
*Executive Vice President of the Corporation*

*Officers*

*President and*  
*Chief Executive Officer*  
Thomas M. Macioce

*Senior Executive Vice President*  
John T. Cullen

*Executive Vice Presidents*  
Howard E. Hassler  
*Finance*

James A. Walsh  
*Executive Group Manager*

*Senior Vice Presidents*  
Frank R. D'Elia  
*Secretary and Corporate Attorney*

Donald F. Dunn  
*Executive Group Manager*

Patrick R. Edwards  
*Administration and Operations*

Benjamin Frank  
*Legal and Governmental Affairs*

Frank W. Harvey  
*Executive Group Manager and*  
*President of Maas Brothers*

Joseph M. Lesser  
*Executive Group Manager*

Frank T. Reilly  
*President of Brooks Brothers*

*Vice Presidents*  
Joseph J. Calandro, Jr.  
*Taxes*

Frank S. Fuino, Jr.  
*Treasurer*

Orren F. Knauer  
*Investor Relations*

B. Robert Meyer  
*Executive Group Manager*

John P. Murphy  
*Financial and Security Audit*

William S. Ruben  
*President of Bonwit Teller*

Alfred J. Schwarz  
*Personnel and Executive Development*

Ruben L. Slape  
*Credit*

William J. Stapleton  
*EDP and Management*  
*Information Services*

Elliot J. Stone  
*President of Jordan Marsh, Boston*

Lawrence Stone  
*President of Stern's*

Frank E. Wilson  
*Construction and Store Planning*

Frank J. Zamboni  
*Real Estate*

*Controller*  
Robert J. Strechay

*Assistant Vice Presidents*  
JoAnn Abma  
Robert Tanner

*Assistant Treasurer*  
Lawrence Saunders

*Executive Offices*

Allied Stores Corporation  
1114 Avenue of the Americas  
New York, N.Y. 10036  
Telephone (212) 764-2000

<sup>1</sup>Member of Executive Committee—Thomas M. Macioce, Chairman  
<sup>2</sup>Member of Audit and Finance Committee—Milton P. Brown, Chairman  
<sup>3</sup>Member of Compensation Committee—Lillian Berkman, Chairwoman  
<sup>4</sup>Member of Nominating Committee—Franklin A. Thomas, Chairman

*Annual Meeting*

The Annual Meeting of Stockholders will be held at 11 a.m. on Tuesday, June 18, 1985, in the Starlight Roof of the Waldorf-Astoria, Park Avenue between 49th and 50th Streets, New York City. All stockholders are invited to attend.

*Dividend Reinvestment Plan*

Allied common stockholders may elect to have dividends automatically reinvested in additional shares of Allied. They may also purchase shares by making cash payments from \$25 to \$30,000 in any one calendar year. There is no commission or charge for these services. Participation is voluntary and may be terminated at any time.

Requests for additional information about this plan, or any questions about stockholdings or dividends, should be directed to The Bank of New York, Stock Transfer Department, 90 Washington Street, New York, N.Y. 10015, or to Allied Stores Corporation, Investor Relations Department. Should you wish to communicate with The Bank of New York by telephone, you may do so by calling (212) 530-8055.

*Dividend Payment Dates*

Dividends on common shares are paid quarterly on or about the 20th of January, April, July and October to stockholders of record on or about the 20th of the prior month.

*Form 10-K*

Upon request to Allied Stores Corporation, Investor Relations Department, stockholders may obtain, without charge, a copy of the Corporation's Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

*Independent Accountants*

Touche Ross & Co.  
New York, N.Y.

*General Counsel*

Sullivan & Cromwell  
New York, N.Y.

*Fiscal Agents*

*Common Stock*

*Registrar, Transfer & Dividend Paying Agent*

The Bank of New York  
Stock Transfer Department  
90 Washington Street  
New York, N.Y. 10015  
Telephone (212) 530-8055

*10 3/8% Notes*

Trustee & Paying Agent  
Bankers Trust Company  
Corporate Trust and Agency Group  
4 Albany Street  
New York, N.Y. 10015  
Telephone (212) 618-2298

*4 1/8% Convertible Debentures*

*8 1/8% Convertible Debentures and*

*9 1/8% Convertible Debentures*

*Trustee, Paying & Conversion Agent*

The Chase Manhattan Bank, N.A.  
Corporate Trust Division  
1 New York Plaza  
New York, N.Y. 10081  
Telephone (212) 676-4020

*6 1/2% Notes*

Trustee & Paying Agent  
Manufacturers Hanover Trust Company  
Corporate Trust Department  
600 Fifth Avenue  
New York, N.Y. 10020  
Telephone (212) 957-1143

Allied Stores Corporation  
1114 Avenue of the Americas  
New York, N.Y. 10036